THE TRADE DEFICIT FROM A SECTORAL PERSPECTIVE: THE DEFICIT IN 1984 AND CHANGES SINCE 1981

A GRAPHIC PRESENTATION

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THE TRADE DEFICIT FROM A SECTORAL PERSPECTIVE

Attached are two graphics. Figure I shows those sectors for which we are currently projecting the largest 1984 U.S. trade balance surpluses and deficits.

Figure II, in contrast, is a rank ordering of the major contributors, by industry sector, to changes in the projected U.S. 1984 trade balance, compared to 1981 performance.

Great care should be taken in drawing conclusions from these data for several reasons, including:

- There is no standard, accepted way of describing or identifying sectors for these kinds of sectoral comparisons. The official product categories used in U.S. trade classifications are often arbitrary and not always useful or meaningful for this kind of analysis. We have, therefore, attempted to put together meaningful, related product groupings for this presentation. This means, however, that in doing so, the resulting groupings may involve different levels of disaggregation; i.e., some industry groupings correspond with two- or three-digit Schedule A/E classifications, others combine some three-digit classifications. Changing the combinations of items aggregated to form the broad product groupings included in the display would, of course, change the results.

- It is important to note the difference between figures I and II. Figure I shows 1984 first-half trade balances at annual rates for those sectors showing the largest surpluses and deficits. Figure II shows the changes in performance--both improved and deteriorating--between 1981 and the first-half of 1984 at annual rates.
- It is particularly important to recognize that neither a large deficit in a particular sector nor an expanding deficit in a particular sector necessarily indicate that sector is the cause of a deteriorating trade balance. Some sectors traditionally incur deficits because no adequate domestic supplies are available (e.g., oil); others incur deficits for comparative advantage reasons; and some sectors have traditionally provided surpluses (e.g., aircraft). Thus, in the context of an expanding U.S. economy, the problem of a deteriorating trade balance may be not so much with an expanding deficit in a particular sector, but perhaps in the weak performance of a sector that has traditionally produced surpluses.

The point is, our historic strengths are eroding!

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Analysis

There are few surprises in Figure I. The single largest positive item is grains. The largest negative item is petroleum and products.

Figure II shows graphically the enormous benefit we have derived from falling oil prices, with a positive shift (a decline in our deficit) of $20.5 billion between 1981 and 1984. This improvement is now being reversed, however, and oil imports are rising.

Figure II also shows the degree to which a number of our most competitive industries have seen their trade surpluses decline, especially ADP equipment and parts, construction equipment, and aircraft.

The largest deficit increases--not surprisingly--are in wearing apparel and passenger cars. Notably absent from Figure II is iron and steel. The deficit in this product group (in dollar terms) declined strongly from its peak in 1981 and only last year began again to increase. This year, however, the deficit in steel should exceed 1981 levels, though only modestly.

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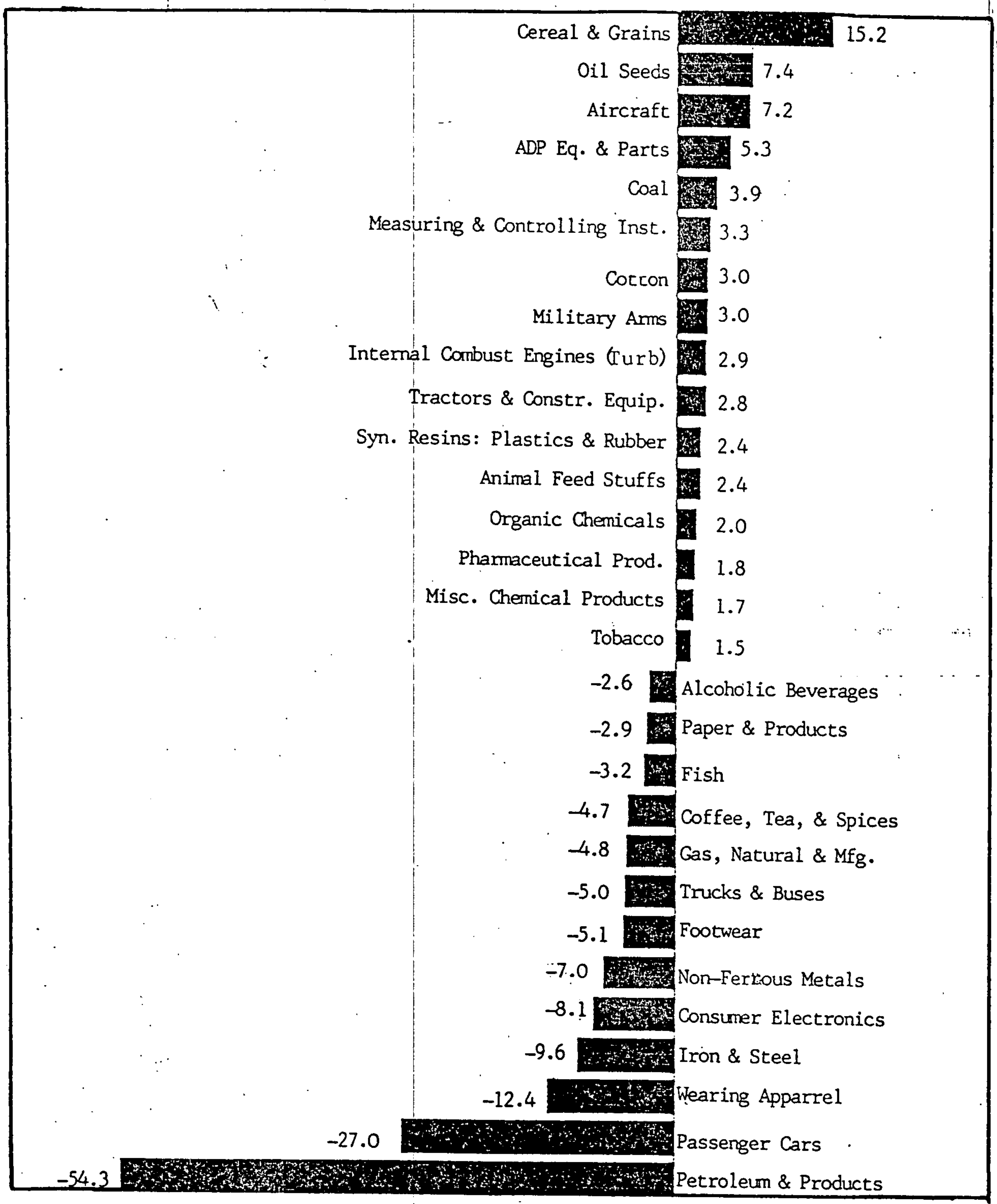
FIGURE I.
THE LARGEST POSITIVE AND NEGATIVE COMPONENTS
OF THE U.S. TRADE DEFICIT 1984
(First Half In $Billions at Annual Rates)



Source: OTIA/TD/ITA
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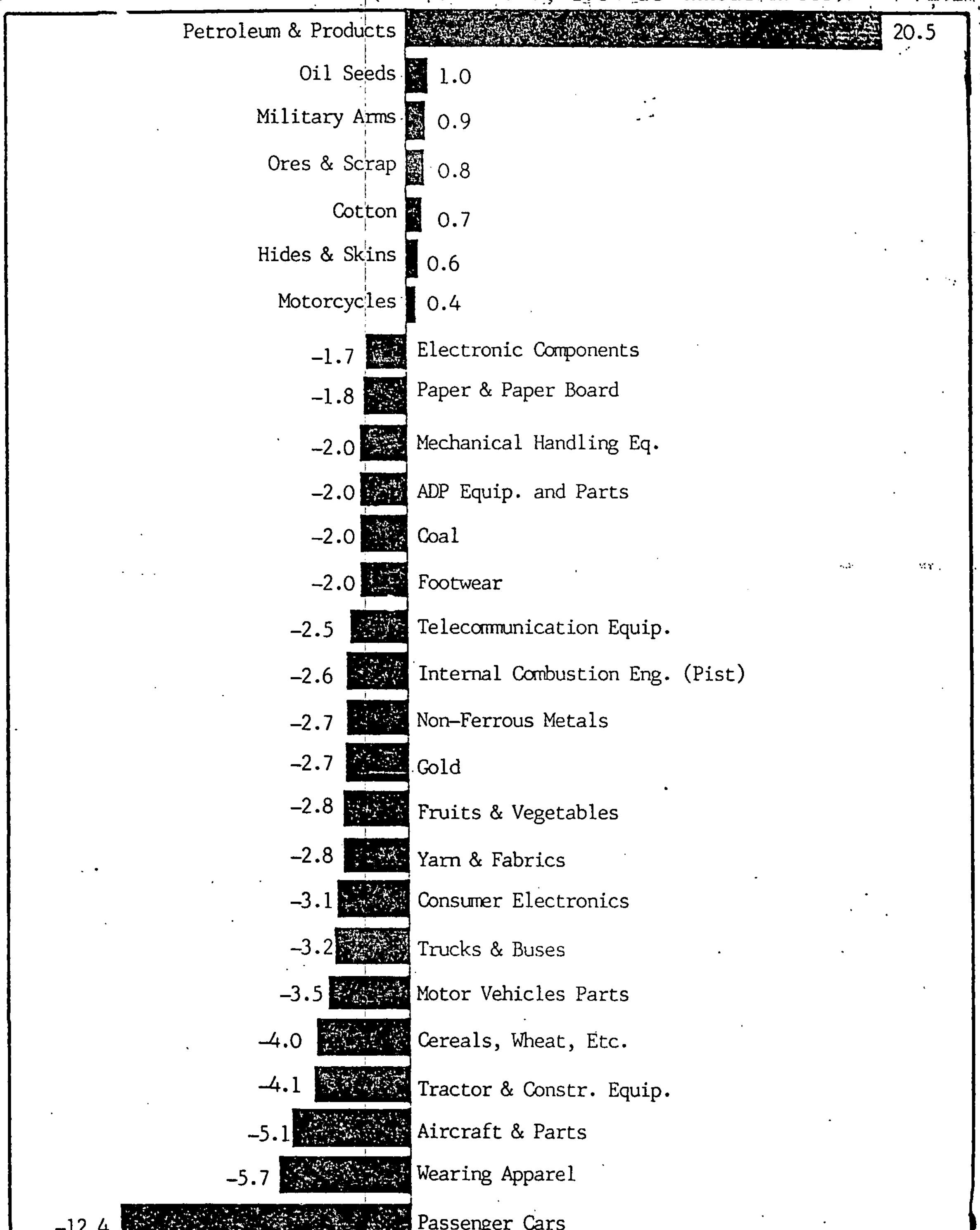
FIGURE II.
LARGEST CHANGES IN PRODUCT TRADE
BALANCES BETWEEN 1981 AND
FIRST HALF 1984
(In $billions, 1984 at Annual Rates)



Source: OTIA/TD/ITA From Census Trade Statistics
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